

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 2 of 10, Q & A 5.

**Question:**

Please provide a copy of all Affiliate Service Level Agreements EGNB has in place with Enbridge Inc. or any other affiliates.

**Response:**

Copies of the Affiliate Service Level Agreements that EGNB has in place with Enbridge Inc. or any other affiliates are attached.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 4 of 10, Q & A 9.

**Question:**

Compare and contrast the allocation methodology used by Mr. Easson and EGNB until 2008 with the Enbridge Inc. allocation now proposed by EGNB. Please describe the differences in how individual costs items are treated/allocated when treated differently under the two approaches for EGNB's 2009 financial results.

**Response:**

The allocation methodology used by Mr. Easson and EGNB until 2008 looked at individual cost items allocated to EGNB by Enbridge Inc. Each item had been assessed by Mr. Easson for its direct benefit to EGNB. The allocation methodology did not recognize overall benefits received by EGNB by being part of Enbridge Inc.

Under the proposal by EGNB for 2009 and beyond, costs are not considered on an individual basis, but are instead considered on the basis that the overall costs allocated by Enbridge Inc. are less than the benefits received by EGNB.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 5 of 10, Q & A 10.

**Question:**

The evidence references the necessity of “tailoring” Enbridge Inc.’s policies, procedures and best practices for the New Brunswick market and EGNG’s business.

- (i) How much tailoring has been required for the areas of human resources, internal controls, governance, and safety and reliability?
- (ii) Has the cost of this tailoring been quantified by EGNB? If so, provide the results. If not, why not?

**Response:**

- (i) While EGNB has not tracked specific tailoring that has been required, it has been a limited amount. However, EGNB must ensure that its policies and procedures align with any applicable New Brunswick legislation and also recognize the operational differences within EGNB as compared to other gas distribution utilities within Enbridge.
- (ii) The cost of any tailoring has not been quantified as it is not considered to be material and would be significantly less than the cost of developing a comprehensive set of policies, procedures and best practices from scratch.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 7 of 10, Q & A 12.

**Question:**

The evidence references the Board's direction to EGNB and a review carried out by EGNB which "...let EGNB to bring forward the proposed change".

- (i) When did this review take place?
- (ii) Who was involved with the review and what roles did they take?
- (iii) Please provide copies of all documents produced as part of, or as a result of, this review.

**Response:**

- (i) The review took place during the November 2009 to May 2010 time period, following the November 13, 2009 release of the 2008 Financial Results decision.
- (ii) The review was led primarily by the finance management team within EGNB in conjunction with the General Manager. The finance management team evaluated the current treatment of the allocated costs, considered whether EGNB received a direct or indirect benefit related to the costs and determined what they believed was the most appropriate means of treating the costs, while the General Manager provide oversight and review of the findings.
- (iii) EGNB did not prepare any documents as part of, or as a result of, the review other than the report submitted to the Board. A copy of this report is attached.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 7 of 10, Q & A 13.

**Question:**

Please provide a breakdown of the \$523,016.00 increase in EGNB's 2009 revenue requirement as a result of the proposed new allocation methodology. Please provide the breakdown reflecting to the categories as identified in Enbridge Inc.'s Cost Allocation Methodology (Schedule 3 and/or 4 to the pre-filed evidence).

**Response:**

Please see the response to AWL Interrogatory No. 6 for a breakdown of the drivers behind the \$523,016 increase in EGNB's 2009 revenue requirement.

Please see the response to Board Interrogatory No. 10 for the differences in the treatment of the allocated costs by the categories identified in the Cost Allocation Methodology. The additional corporate allocations that have been included in the 2009 Revised Financial Statements were capitalized in a manner consistent with EGNB's other Operating & Maintenance expenses in 2009.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 7 of 10, Q & A 13.

**Question:**

Please provide a breakdown of the \$523,016.00 increase to the Revenue Requirement by line item cost.

**Response:**

The following table shows the items contributing to the \$523,016 increase to the Revenue Requirement, as highlighted in Exhibit A, Schedule 6, page 2 (in \$000's):

Operating and Maintenance Expenses	\$	468
Amortization of Property, Plant & Equipment		8
Interest on Amounts due to Associates & Affiliates		13
Amortization of Deferred Development Costs		6
Return on Equity		28
		<u>28</u>
	\$	<u>523</u>

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, page 7 & 8 of 10, Q & A 14.

**Question:**

Please identify the participants in the discussion between EGNB and the EOS Manager referenced in the second paragraph of A 14.

- (i) When did this discussion take place?
- (ii) Please provide copies of any notes taken, or documents produced, as a result of this discussion.
- (iii) Did the discussion involve the consideration of any alternate adjustments? If so, what were they and why were they discarded.

**Response:**

- (i) The discussions between EGNB and the EOS Manager would have been between Paul Hamilton, EGNB's Gas Supply Analyst and Kent Wirth, the EOS Manager. EGNB does not maintain a "call log" or notes to track the exact date of this conversation. However, EGNB agrees with Mr. Butler's statement in his report on page 15, which indicates that the relevant discussions took place during "late 2008 and early 2009".
- (ii) EGNB does not have any notes, or documents produced, as a result of the discussion.
- (iii) EGNB does not recall any alternate adjustments being discussed at the time.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 3 – Enbridge Cost Allocation Methodology.

**Question:**

- (i) Has Enbridge Inc.'s cost allocation policy/methodology (or any previous version in place since 2004) been considered, followed, approved or rejected by any other Canadian regulator and, if so, provide a copy of the regulator's decision(s)
- (ii) Please confirm a representative of Enbridge Inc. will attend at the hearing of this matter to give evidence with respect to Enbridge Inc.'s costs which have been allocated to EGNB and Enbridge Inc.'s costs allocation methodology. Please provide a copy of that individual's curriculum vitae.

**Response:**

- (i) EGNB is only aware of Enbridge Inc.'s cost allocation methodology being reviewed by the Régie in Quebec. An excerpt of the relevant portion of the associated decision is attached. EGNB notes that this decision is only available in French.

While the issue of Enbridge Inc.'s allocations has been a matter of debate in Ontario, the Ontario Energy Board has not ruled upon the methodology. The treatment of corporate costs has formed part of settlement agreements in Enbridge Gas Distribution's rate proceedings.

- (ii) EGNB does not intend to have a representative of Enbridge Inc. attend the hearing to give evidence with respect to the Enbridge Inc. costs which have been allocated to EGNB and the Enbridge Inc. cost allocation methodology. EGNB's witnesses are fully familiar with these matters and do not believe it is necessary to call an Enbridge Inc. witness.



**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 4 – 2009 Allocated Costs.

**Question:**

- (i) Please provide copies of all of the invoices from Enbridge Inc. which are reflected in Schedule 4.
- (ii) Please provide all necessary documentation from Enbridge Inc. to establish that its total costs under the various categories outlined in Schedule 4 were both actually and prudently incurred.

**Response:**

- (i) Copies of the monthly Enbridge Inc. invoices are attached.
- (ii) EGNB relies on the Cost Allocation Methodology as supporting documentation for these transactions. EGNB is provided the annual allocations from Enbridge Inc. as part of the annual budgeting process. As a result of the controls in place throughout Enbridge, it is assumed by EGNB that these costs are incurred prudently by Enbridge Inc. and are allocated fairly to EGNB based on the guiding principles established in the Corporate Allocation Methodology document.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 5 – 2009 Revised Financial Statements with Notes, page 8 of 14.

**Question:**

Please provide a further breakdown and explanation of the various operating and maintenance expense line items identified for 2009.

**Response:**

The various operating and maintenance expense line items reflect the costs incurred by the different departments within EGNB. The following table provides a further breakdown of these expenses:

Line No.		2009 Actual									Total
		Corp. Mgmt	Corp Admin	Fin Rptng	IT	Regulatory & Upstream	Sales & Marketing	Distribution & Maintenance	Customer Care	Human Resources	
1	Labour & Benefits	831	-	503	360	-	1,444	3,279	525	1,711	8,653
2	Admin/Office Expenses	11	75	0	0	3	19	75	67	-	250
3	Computer and Telecom Services	10	1	8	143	-	57	100	39	-	359
4	Professional Consulting	164	-	135	(7)	417	119	797	657	42	2,324
5	Travel and Training	25	-	6	2	2	119	65	19	1	238
6	Advertising & Promotions	15	-	3	-	-	901	7	-	-	927
7	Incentives	-	-	-	-	-	4,201	-	-	-	4,201
8	Tools and Safety	-	-	-	-	-	13	101	4	-	118
9	Fleet	-	-	-	-	-	-	585	31	-	616
10	Facilities	-	-	-	-	-	-	657	-	-	657
11	Insurance	-	222	-	-	-	-	-	-	-	222
12	NBEUB Assessments	-	-	-	-	887	-	-	-	-	887
13	Corporate Allocations	197	1,202	120	444	63	-	154	-	426	2,606
14	Gas transportation & related activities										1,141
15	<b>Total O&amp;M prior to capitalization</b>	<b>1,254</b>	<b>1,499</b>	<b>774</b>	<b>943</b>	<b>1,372</b>	<b>6,872</b>	<b>5,821</b>	<b>1,342</b>	<b>2,179</b>	<b>23,197</b>
	<b>Capitalized to:</b>										
16	Property, plant & equipment	283	77	176	281	233	-	4,766	30	475	6,322
17	Development O&M capitalized costs	725	298	444	567	548	6,872	804	77	1,486	11,821
18	<b>Total capitalized</b>	<b>1,008</b>	<b>375</b>	<b>619</b>	<b>848</b>	<b>781</b>	<b>6,872</b>	<b>5,570</b>	<b>107</b>	<b>1,961</b>	<b>18,143</b>
19	<b>Total</b>	<b>247</b>	<b>1,124</b>	<b>155</b>	<b>94</b>	<b>591</b>	<b>(0)</b>	<b>251</b>	<b>1,235</b>	<b>218</b>	<b>5,054</b>

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 7 – Budget, page 8 of 12.

**Question:**

Please provide a further breakdown and explanation of the various operating and maintenance expense line items identified for 2011.

**Response:**

The various operating and maintenance expense line items reflect the costs incurred by the different departments within EGNB. The following table provides a further breakdown of these expenses:

Line No.		2011 Budget									Total
		Corp. Mgmt	Corp Admin	Fin Rptng	IT	Regulatory & Upstream	Sales & Marketing	Distribution & Maintenance	Customer Care	Human Resources	
1	Labour & Benefits	809	-	575	358	-	1,623	3,428	497	1,884	9,173
2	Admin/Office Expenses	40	84	0	1	10	27	117	121	-	400
3	Computer and Telecom Services	3	-	2	268	-	23	78	3	-	376
4	Professional Consulting	130	-	154	-	355	105	871	672	20	2,308
5	Travel and Training	21	-	5	5	4	128	80	6	40	288
6	Advertising and Promotions	25	-	3	-	-	1,151	6	-	-	1,186
7	Incentives	-	-	-	-	-	5,166	-	-	-	5,166
8	Tools & Safety	-	-	-	-	-	23	97	4	-	123
9	Fleet	-	-	-	-	-	-	604	40	-	643
10	Facilities	-	-	-	-	-	-	720	-	-	720
11	Insurance	-	360	-	-	-	-	-	-	-	360
12	NBEUB Assessments	-	-	-	-	1,100	-	-	-	-	1,100
13	Corporate Allocations	230	1,314	87	370	104	-	132	33	529	2,798
14	Gas transportation & related activities										1,170
15	<b>Total O&amp;M prior to capitalization</b>	<b>1,258</b>	<b>1,757</b>	<b>826</b>	<b>1,001</b>	<b>1,573</b>	<b>8,246</b>	<b>6,133</b>	<b>1,374</b>	<b>2,472</b>	<b>25,810</b>
	<b>Capitalized to:</b>										
16	Property, plant & equipment	216	304	145	142	252	-	2,726	6	381	4,172
17	Development O&M capitalized costs	597	838	398	396	694	7,303	441	17	1,057	11,741
18	<b>Total capitalized</b>	<b>814</b>	<b>1,142</b>	<b>542</b>	<b>538</b>	<b>945</b>	<b>7,303</b>	<b>3,167</b>	<b>23</b>	<b>1,437</b>	<b>15,913</b>
19	<b>Total</b>	<b>444</b>	<b>615</b>	<b>283</b>	<b>463</b>	<b>627</b>	<b>942</b>	<b>2,966</b>	<b>1,351</b>	<b>1,035</b>	<b>9,897</b>

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 8 – 2011 Budget Explanations, page 2 of 19.

**Question:**

Please prepare a column which shows the variance of the 2011 budget numbers to the 2010 actual numbers.

**Response:**

The following table provides the requested variance:

Line No. (in thousands of dollars)	2010 Actuals (YTD Oct)	2011 Budget	Variance to 2010 YTD Actuals
1 Operating Revenue			
2 Gas Distribution	\$ 40,024	\$ 54,218	\$ 14,194
3 Miscellaneous	328	137	(191)
4 Income from Investments	-	-	-
5 Allowance for Funds Used During Construction	78	13	(65)
6	40,430	54,368	13,938
7 Installation Services			-
8 Revenue	6,835	4,478	(2,356)
9 Cost of Goods Sold	(5,722)	(3,562)	2,160
10	1,113	916	(196)
11 Total Revenue	41,543	55,284	13,741

EGNB notes that 2010 Actuals only reflect year to date actual results to the end of October 2010, the most recent month of actual information available.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 8 – Budget, page 6 of 19.

**Question:**

Please prepare a column which shows the variance of the 2011 budget numbers to the 2010 actual numbers.

**Response:**

The following table provides the requested variance:

Line No.		2010 YTD Actual	2011 Budget	Variance to 2010 YTD
1	Labour & Benefits	\$ 7,214	\$ 9,173	\$ 1,959
2	Admin/Office Expenses	244	400	155
3	Computer & Telecom Services	250	376	126
4	Professional Consulting	2,198	2,308	110
5	Travel and Training	184	288	104
6	Advertising & Promotions	1,078	1,186	108
7	Incentives	3,096	5,166	2,070
8	Tools & Safety	97	123	26
9	Fleet	516	643	128
10	Facilities	567	720	153
11	Insurance	211	360	149
12	NBEUB Assessments	1,004	1,100	96
13	Corporate Allocations	2,301	2,798	497
14	Gas transportation & related activities	1,141	1,170	29
15	<b>Total O&amp;M prior to capitalization</b>	<u>20,100</u>	<u>25,810</u>	<u>5,711</u>
	<b>Capitalized to:</b>			
16	Property, plant & equipment	5,496	4,172	(1,324)
17	Development O&M capitalized costs	<u>11,413</u>	<u>11,741</u>	<u>328</u>
18	<b>Total capitalized</b>	<u>16,909</u>	<u>15,913</u>	<u>(996)</u>
19	<b>Total</b>	<u>\$ 3,191</u>	<u>\$ 9,897</u>	<u>\$ 6,706</u>

EGNB notes that 2010 Actuals only reflect year to date actual results to the end of October 2010, the most recent month of actual information available.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 8 – Budget, page 7 of 19.

**Question:**

- (i) Please provide additional details and invoices issued by consultants supporting marketing and regulatory activities as referenced under the bullet “Professional Consulting”.
- (ii) Please provide the details of EGNB’s head office rent expenses for 2009 including rent and common area expenses, or additional rent paid, as well as the term of the lease.

**Response:**

- (i) Total marketing consulting expenses were \$107 thousand in 2009. These charges arose primarily from research and market data services (\$85K) provided primarily by Bristol Communications, media monitoring services (\$12K) provided primarily by Bristol Communications, Hubspot Monitoring and Radian6 and customer satisfaction surveys and associated reports (\$8K) provided primarily by Bristol Communications and Lexitech.

Total regulatory professional consulting expenses were \$77 thousand in 2009. These charges arose primarily from services provided by MJ Ervin & Associates (\$15K) and Black & Veatch (\$56K). Additional services were provided by Lexitech and PriceWaterhouseCoopers for the remaining costs.

EGNB does not believe it is appropriate to provide copies of the invoices it has received for the services provided by its consultants as these invoices will show hourly rates or specific fees charged by the consultants which EGNB considers to be competitive information for the consultants.

- (ii) EGNB’s head office rent expenses for 2009 were \$378,437. This was comprised of \$260,912 for office space, \$115,680 for warehouse space and \$1,845 for the repayment of a leasehold improvement. There were no charges for common area expenses.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 8 – Budget, page 16 of 19.

**Question:**

Please provide a further breakdown of the “planned strategic project” in the first paragraph under 2011 Budget vs. 2010 Budget, including a description of the project and a breakdown on how the \$2.7 million dollars was calculated.

**Response:**

The strategic project referenced above is a planned expansion to the Village of Dorchester. The project consists of approximately 15 kms of NPS 4” steel main, which would interconnect with the Sackville distribution system. The estimated cost to construct the pipeline and associated appurtenances is approximately \$3 million. This includes approximately \$2.2 million in construction labour, approximately \$370,000 in pipe materials and \$150,000 in municipal, regulatory, environmental and legal costs. A ten percent contingency of \$270,000 has also been included. The project also assumes the one large customer that is driving the expansion will be contributing approximately \$350,000 to aid in the cost of construction, bringing the total to \$2.7 million.

A further description of this project can be found in EGNB’s response to Board Interrogatory No. 15(2(j)).

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 1 of 7.

**Question:**

Please provide copies of the detailed reviews conducted with respect to the requirements for, computer hardware, computer software, tools and work equipment, office furniture and equipment, transportation equipment and leasehold improvements.

**Response:**

Computer hardware, computer software, tools and work equipment, office furniture and equipment, transportation equipment and leasehold improvements needs are being monitored on an on-going basis by the managers responsible for these areas.

The following outlines EGNB's replacement guidelines:

- Computer Hardware – primarily based on a four year replacement cycle (in line with the four year EGD warranty standard on most computer equipment). Budgeted full time employee counts from Human Resources are also taken into consideration.
- Computer Software – budgeted as an on-going annual cost. Budgeted full time employee counts from Human Resources, as well as direction from the IT Steering Committee, are also taken into consideration.
- Tools and Work Equipment – EGNB has a tool replacement program in place.
- Office Furniture and Equipment – EGNB has a deskchair replacement program in place. As well, on an annual basis department managers identify furniture, equipment, etc. requirements within their group that are considered for replacement.
- Transportation Equipment – EGNB has a vehicle replacement program in place.
- Leasehold Improvements – on an annual basis department managers identify any leasehold improvements within their department and these are taken into consideration when compiling the overall budget for the year.

Please see the attached budget models that provide the requested details:

- IT 2011 Capital Budget model
- General Plant 2011 Capital Budget model



**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 1 of 7.

**Question:**

Please provide a copy or show the calculations which support the distribution mains budget item including the calculation of the anticipated new mains to support attachments not on main and the details of the forecasts costs of same and the details of the allowances for mains relocations, sewer conflict resolution and the “strategic project”.

**Response:**

The \$6.6 million distribution mains budget item is comprised of amounts for the installation of mains (\$2.4 million), resolution of sewer conflicts (\$0.2 million), mains relocations (\$0.5 million) and special projects (\$3.5 million). For budgeting purposes, EGNB uses an average estimated cost by main size including appurtenances (i.e. rock excavation, property restoration, etc.) based on average historical cost data, by municipality to develop its mains budget. These average costs are then adjusted by the contractually agreed upon annual pricing changes, if any. The following table summarizes the mains component of the distribution mains budget item:

Municipality	Pipe Size	Length	Cost \$/m	Cost
Fredericton	2"	3,300	84.88	\$280,112
	4"	1,694	134.29	\$227,490
Oromocto	2"	176	85.00	\$14,960
	4"	-	134.00	\$0
Moncton	2"	6,204	81.00	\$502,524
	4"	-	112.00	\$0
Dieppe	2"	1,342	81.00	\$108,702
	4"	308	112.00	\$34,496
Riverview	2"	1,518	81.00	\$122,958
	4"	682	112.00	\$76,384
Saint John	2"	2,354	309.00	\$727,386
	4"	770	356.00	\$274,120
St. George	2"	-	105.00	\$0
	4"	-	203.00	\$0
St. Stephen	2"	-	105.00	\$0
	4"	-	203.00	\$0
Sackville	2"	352	85.00	\$29,920
	4"	220	134.00	\$29,480
<b>Total</b>		<b>18,920</b>		<b>\$2,428,531</b>

The budgeted sewer conflict resolution cost below reflects the anticipated cost to locate sewer infrastructure encountered during the construction process. This infrastructure is municipally owned sewer laterals which have not been, or cannot be, located by the municipality for various reasons but are deemed by EGNB staff to be at a higher risk of damage during the construction process. The following table summarizes the development of the budgeted costs for sewer conflict resolution.

Municipality	Proposed New Main	Number of Customers (assuming 15.2m Frontage)	Estimated % Sewer Locate Required	Number of Sewer locates Required	Sewer locate cost @ est. \$450
Fredericton	4994	329	28%	92	\$41,398
Oromocto	176	12	28%	3	\$1,459
Moncton	6204	408	28%	114	\$51,428
Dieppe	1650	109	28%	30	\$13,678
Riverview	2200	145	28%	41	\$18,237
Saint John	3124	206	28%	58	\$25,896
St. George	0	0	28%	0	\$0
St. Stephen	0	0	28%	0	\$0
Sackville	572	38	28%	11	\$4,742
Strategic Pipe	2800	184	28%	52	\$23,211
<b>Total</b>	<b>21720</b>				<b>\$180,047</b>

EGNB has also budgeted \$470,000 for main relocation work. These costs are based on a combination of known projects, historical data and allowance for unplanned work.

There are several strategic projects that have been included in the 2011 budget. The budget includes \$2.7 million for a project to expand to Dorchester, which is explained in more detail in the response to AWL Interrogatory No. 15. There is also an amount budgeted for the installation of automated meter reading devices on existing meter sets. The 2011 budget assumes that approximately 7,500 meter sets will be retrofitted with these devices at an average cost of \$100. EGNB has also included a budget allowance of \$100,000 as a provision for preparatory work on any additional strategic project that may materialize for construction in 2012.

For infill mains, there is also approximately \$710,000 included in the budget for overheads which include legal, Municipal Operating Agreement costs and Energy and Utilities Board fees, construction planning costs, freight and inventory costs.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 2 of 7.

**Question:**

Please provide a copy of the Maritimes & Northeast Pipeline's Firm Service Agreement referenced under budget item "Short-Term Investments".

**Response:**

Please see the attached copy of EGNB's Firm Service Agreement with Maritimes & Northeast Pipeline.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 3 of 7.

**Question:**

Please provide the documentation or calculation used to determine the balance of Long-Term Deferred Post Employment Liabilities for 2010 and the bases for why they are to remain constant in 2011.

**Response:**

EGNB used the actual balances in its budget model as of June 30, 2010 to determine the balance of Long-Term Deferred Post Employment Liabilities for 2010. This amount was subsequently used for establishing the 2011 budget as well. Due to the nature of these liabilities, they are subject to a lot of market volatility and, as a result, instead of trying to project which direction the markets may move, EGNB assumes this balance remains constant for budget and forecast purposes.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 3 of 7.

**Question:**

Please provide a copy of the facts, information or bases relied upon to forecast customer additions for 2011, including a copy of the review of historic attachment rates and EGNB's assessment of current market potential.

**Response:**

EGNB relied on the following methodology in determining its forecast customer additions for 2011:

- Review attachment history looking to identify any emerging trends.
- Remove any attachments from historical attachments that are considered “one time” contributors, i.e. special strategic projects that were completed versus the ongoing attachment growth from repeatable and consistent programs that have been implemented.
- Applying growth factors based on planned marketing initiatives and market activities.
- Testing assumptions and assessing market risks against the market potential, non customers on main (“NCOM”), and implications on capture rates to ensure reasonable expectations are set.
- Consider the time it takes from when a prospective customer signs until they are attached to account for the sales activity required to create an attachment forecast for a particular year. For example, when budgeting for 2011 attachments, any customer signings in the fourth quarter of 2010 will likely be attached in 2011 and conversely any fourth quarter signings in 2011 will likely be in the 2012 forecast.

This approach was applied for 2011 by first assessing historic attachment rates. The following tables outlines the attachment rates for 2006 to 2009 net of “one time” contributors by different market segments:

Commercial Attachments	Large Commercial	Medium Commercial	Small Commercial	Commercial Total
2006	26	125	158	309
2007	22	83	138	243
2008	23	127	231	381
2009	28	122	127	277
Total	99	457	654	1,210

Residential Attachments	New Construction	Residential Retrofit		Retrofit Total	Residential Total
		Electric	Oil		
2006	270	35	503	538	808
2007	352	111	286	397	749
2008	302	80	349	429	731
2009	285	41	247	288	573
Total	1,587	428	3,181	3,609	5,196

\* 2,012 attachments deemed "one time" contributors were removed from the above tables.

Scenarios were then developed to determine the 2011 forecast. These scenarios were based on average attachments during the past four years, the midyear (6+6) forecast for 2010 and a resulting projection for 2011 based on expected capture rates.

	Average 2006 - 2009	2010 6+6 Forecast	2011 Capture Rate Model
Residential Retrofit Electric	67	59	56
Residential Retrofit Oil	346	276	282
Residential New Construction	302	279	0
Small Commercial	164	94	144
Medium Commercial	114	101	95
Large Commercial	25	36	24
Industrial (LFO)		1	0
Total	1,018	846	601

The Capture Rate Model, which is not used to model residential new construction or LFO attachments, applies the following methodology:

- Using NCOM data (developed from Service NB data and market research) for each rate class
  1. Take 2009 Base NCOMs + 2010 NCOMs associated with system growth = 2010 Base
  2. Take 2010 Forecasted Attachments / 2010 Base = 2010 Capture Rate
  3. Add 2% to 2010 capture rate = 2011 Capture Rate
  4. Take 2010 Base + expected 2011 NCOM growth = 2011 Base
  5. Take 2011 Capture Rate \* 2011 Base = 2011 Projection
- The NCOM growth is generated through the budget model
- The 2% addition to the 2010 capture rate is based on expected growth in the capture rate

The results of the capture rate model were then evaluated for reasonableness in each sector. In each sector, the model results were considered to be appropriate. In 2010 and 2011, the NCOM growth is lower than in previous years as a result of lower forecasted mains to be installed. The capture rate model best reflects this aspect. Other considerations were also reviewed for each sector in validating the model outcomes:

- Residential Retrofit Electric – This segment is experiencing challenges as new customer signings for electric boilers, furnaces and electric baseboard conversions have been more

challenging due to higher costs and more difficult conversions. EGNB believes the model result allowed for these challenges sufficiently.

- Residential Retrofit Oil – Cost increases for boilers are impacting customer signings, but EGNB believes that results similar to those forecast for 2010 were appropriate.
- Small/ Medium Commercial - Commercial opportunities are trending smaller and there are more electric conversions which tend to be more expensive and not as economic, projecting a trade off from medium sized opportunities to smaller ones and a downward trend overall. The model results reflected this reality.
- Large Commercial – The model proposed attachments that were consistent with recent averages as opportunities are still seen in this segment, but this segment is getting saturated.

The LFO forecast was established based on known attachments at the time of forecast.

The Residential New Construction forecast was based on the 2010 forecast. The forecast considered the projection from CMHC that housing starts for single family dwellings is expected to decline for 2011 in comparison to 2010. Single family dwellings are the segment in this market where natural gas has its strongest penetration and it will be a challenge to hold 2010 attachments in a declining market.

Based on this approach, EGNB arrived at its final 2011 attachment forecast:

	2011 Forecast
Residential Retrofit Electric	56
Residential Retrofit Oil	282
Residential New Construction	279
Small Commercial	144
Medium Commercial	95
Large Commercial	24
Industrial (LFO)	1
Total	881

While there are challenges reflected in the 2011 forecast, EGNB management believes that the market potential remains positive as a substantial number of NCOMs exist, 21,000 Residential and 2,000 Commercial, based on market research to the end of 2009.

**Reference:** Written direct testimony of Dave Charleson and Lori Stickles, Schedule 9 – 2011 Budget Assumptions, page 5 of 7.

**Question:**

Please provide the O&M budget capitalization percentages used by EGNB from 2000 through to 2010. If any of these have changed for 2011, provide the bases for the change and copies of working documents where the new percentage sought was calculated.

**Response:**

The following table provides the requested capitalization percentages:

Department	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Attachments	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	65.5%
Construction & Maintenance	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	28.3%
Corporate Admin	24.0%	21.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	65.0%
Corporate Management	31.0%	29.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	64.7%
Customer Care	24.0%	21.0%	30.0%	13.0%	9.0%	35.0%	35.0%	8.0% <sup>1</sup>	8.0%	8.0%	1.7%
Eng QA	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	15.0%
Financial Reporting	24.0%	21.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	65.7%
Forecast & Budget	N/A	N/A	N/A	80.0%	80.0%	80.0%	80.0%	N/A	N/A	N/A	N/A
Gas Supply and Control	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Human Resources	48.0%	46.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	58.1%
Incentives	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Information Technology	48.0%	46.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	53.8%
Installations - Project Mgmt	20.0%	25.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	74.5%
Installations - HVAC	20.0%	25.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	74.5%
Logistics	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	76.7%
Marketing	20.0%	25.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	69.4%
Planning	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	47.2%
Regulatory and Budgets	24.0%	21.0%	80.0%	75.0%	70.0%	65.0%	60.0%	60.0%	60.0%	60.0%	64.6%
Sales	20.0%	25.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	69.4%
Service	80.0%	73.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	66.1%

<sup>1</sup> was 35% from January - March 2008; changed to 8% from April - December 2008

N/A reflects departments that were not in place during that year

Please see the response to Flakeboard Interrogatory No. 10 for information regarding the changes to the capitalization percentages in 2011.